

MARKETS HEAT UP FOR US INSURERS RESPONDING TO GLOBAL CLIMATE CHANGE

While climate change poses many challenges and risks for insurers, it can also present opportunities for companies willing to innovate and stay ahead of the game, says Dan Brown, partner, Dentons.

In the US and abroad, there is a growing acknowledgement of global climate change and the potential increase in personal and commercial risks as a result. Climate change is a hot button topic in politics, evoking arguments between the right and left. Insurance companies have thus far indicated a preference to avoid controversies over energy policy, but insurers—including reinsurance companies that bear the ultimate risk—cannot afford to feign ignorance over the impacts of climate change primarily on property and casualty risks.

Arguments have been made that, on a global scale, there is no significant trend in global insured losses for weather events, such as flash floods, hail storms, tornados, lightning and more. These findings argue that the bigger problem is an accumulation of wealth in disaster-prone areas.

However, other studies point to a positive trend in insured losses in the US. Moreover, in a recent survey nearly 90 percent of S&P Global 100 Index companies identified extreme weather and climate change as current or future business risks.

There can be no doubt that 2012 served as an example of how the insurance industry could be hit by weather extremes. By some estimates, weather-related losses accounted for 69 percent of overall losses and 92

percent of insured losses in the US due to national catastrophes. From Hurricane Sandy to the droughts that ravaged farmland in the Midwest, the insurance industry covered a large portion of losses, estimated at \$58 billion, representing a significant increase from the average over the last decade and the second highest annual loss since 1980 in the US.

Of note, the federal government provides flood insurance, which is among the riskiest type of insurance during extreme weather, and finances crop insurance, protecting farmers from the uncertainty that comes with climate change. The drought of 2012 nonetheless raised a possible moral hazard problem which could shape how this insurance is financed in the future. Specifically, many farmers were incentivised to give up on crops earlier and make insurance claims rather than trying to save them. This had broader implications for the cost and insurability of crops nationwide given this tumultuous time and the potential for catastrophic losses.

Federally-funded insurance in certain sectors does not provide a complete solution to how the insurance industry can manage its own risk in the face of growing climate change. Insurers may of course raise premiums or drop coverage to adjust to higher risks, but either such approach raises commercial and competitive concerns. In the commercial insurance markets, such



“From supporting climate research and developing responsive products and services to incorporating climate change considerations in investment decisions, insurers have many options available.”

Insurers are also creating products to specifically cover ‘green’ buildings or ‘green’ repairs and special policies that cover energy-efficient or renewable energy products such as solar power or wind farms. Additionally, insurers and reinsurers are more frequently using financial instruments such as catastrophe bonds to transfer insurance risks to the capital markets.

Insurers and reinsurers can take many steps to differentiate themselves in the context of risks related to climate change. From supporting climate research and developing responsive products and services to incorporating climate change considerations in investment decisions, insurers have many options available to reduce their own current and future exposure to risks associated with the rise in magnitude and frequency of extreme weather-related events that accompany climate change.

With the help of experienced risk management and insurance law professionals, insurers can maximise opportunities to improve and protect their bottom line, despite the increasing risks of climate change-related loss events. □

.....
Bella Shirin, managing associate, Dentons, provided significant contributions to this article.

as hotels and energy sectors, there is a trend towards increasing profits despite large losses through increased deductibles, reduced limits and new exclusions. However, these solutions have a limited scope and lifespan.

Dentons has been helping insurance company clients implement creative solutions and products to reduce climate change-related losses for both itself and its insureds. For example, insurers can take steps to better understand the climate change problem. Many large insurers and reinsurers are already applying their resources to collect data, improve modelling, and analyse risks and better track trends that show problems posed by climate change.

Insurers are also taking steps to incentivise consumers to use energy-efficient and renewable energy technologies that make insureds less vulnerable to losses. Risk mitigation also includes incentives for improvements to comply with building codes, which can make property less likely to suffer a loss when weather-related catastrophe strikes.

Insurance policies are increasingly being designed to reward behaviours that reduce greenhouse gas emissions. Many auto insurance companies are introducing pay-as-you-drive insurance products to reward drivers who drive fewer miles—this is proportional to accident risk but has added benefits for the environment.

MEET DAN BROWN & BELLA SHIRIN

Dan Brown’s practice focuses on representing insurance companies, agents, and brokers, as well as other clients involved in all aspects of the surplus lines insurance markets in the US. This includes advising alien or foreign insurers on how to comply with various state laws in placing business, advising producers on licensing, placement, and premium tax issues, and advising insureds on coverage and placement issues. Brown represents clients with a wide variety of licensing and compliance issues in London, California, and elsewhere.



Bella Shirin’s practice focuses on insurance regulatory, transactional and risk management issues. She represents foreign and domestic insurers and reinsurers, agents, brokers and other insurance licensees and service providers in significant business and regulatory matters. Shirin also represents many clients whose primary industry focus is not insurance, assisting them in implementing insurance and product warranty programmes for themselves and their customers.